

## I. INTRODUCTION

### A. YEAR'S HIGHLIGHTS

#### 1. Gross Handle

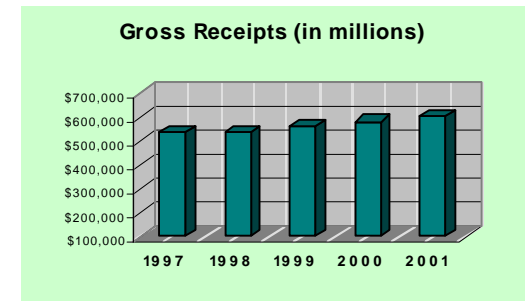
Once again charitable gaming in Kentucky posted its highest “handle” or gross receipts in the history of the department. The “handle” is money taken at the door before pay-outs or expenses are deducted. It is the total money “handled.” In 2001 charitable organizations in Kentucky handled \$607,048, 878.29. This is an increase of \$22.6 million dollars over last year. The total pay-out statewide was \$518,887,156.35 for a statewide average pay-out of 85% of the gross handle.

#### 2. Retention Percentage

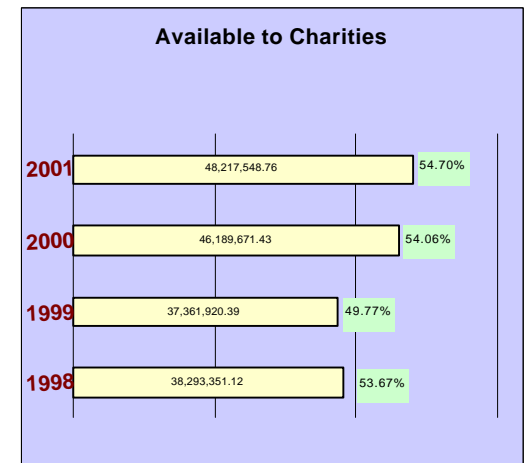
After expenses, the charities had \$48,224,883.66 available for charitable purposes, two (2) million dollars more than last year. Even more important is that the percentage of total dollars wagered that is available to (retained by) the charity has increased for the second year in a row. In 2001, the average retained percentage was 54.70% up from 54.06% in 2000.

#### 3. Attendance

In 2001 the reported attendance was almost five and one-half million people (5,441,875) which is 300,000 more than last year. The largest gaming counties in attendance are: Jefferson, Simpson, Kenton, Boyd, Whitley, and Laurel. These counties account for one-half (1/2) of the attendance statewide. What is interesting is that these numbers do not necessarily correlate to the counties with the most gross receipts. The six (6) largest gaming counties in gross receipts are: Jefferson, Boyd, Kenton, Simpson, Fayette, and Whitley. Nor do they correlate to the population centers except in the case of Jefferson County, Kenton County, and Fayette County. In fact, the other three (3) counties are small in population but border the state line and draw their attendance from contiguous states.



1997	540,906,656.16
1998	540,306,101.47
1999	564,442,927.83
2000	584,601,495.30
2001	607,068,528.29



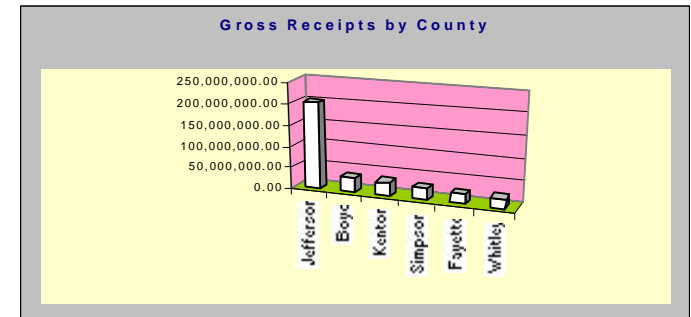
#### 4. Counties

There are eighty-nine (89) Kentucky counties that game and fifteen (15) that do not game. The counties that do not game are: Cumberland; Elliott; Estill; Jackson; Lawrence; Lee; Leslie; Lyon; Magoffin; Morgan; Owsley; Robertson; Spencer; Trimble; and Wolfe.

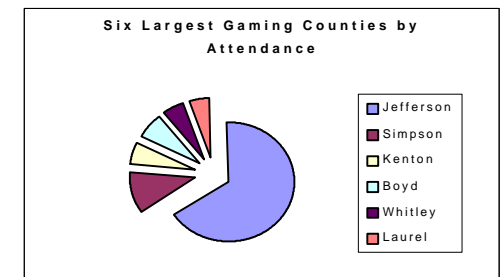
The gross receipts of the counties break down as follows:

- a) one (1) county has gross receipts over \$200 million (Jefferson);
- b) twelve (12) counties have gross receipts over \$10 million (Bell, Boyd, Daviess, Fayette, Hardin, Kenton, Laurel, McCracken, Pike, Pulaski, Simpson, Whitley);
- c) thirty-eight (38) counties have gross receipts over \$1 million (Adair, Boone, Bourbon, Boyle, Breckinridge, Bullitt, Campbell, Christian, Clark, Floyd, Franklin, Grant, Graves, Grayson, Harlan, Henry, Hopkins, Johnson, Letcher, Madison, Marion, Martin, Mason, McCreary, Meade, Mercer, Metcalfe, Nelson, Pendleton, Perry, Rockcastle, Scott, Todd, and Warren);
- d) thirty-one (31) counties have gross receipts less than \$1 million (Allen, Anderson, Bracken, Butler, Calloway, Carroll, Clay, Clinton, Fulton, Gallatin, Garrard, Green, Harrison, Henderson, Knott, Knox, Lewis, Livingston, Marshall, Montgomery, Muhlenberg, Ohio, Oldham, Rowan, Russell, Shelby, Taylor, Trigg, Union, Washington, and Woodford); and
- e) seven (7) counties have gross receipts less than \$100,000 (Breathitt, Carlisle, Casey, Fleming, Hickman, Jessamine, Logan).
- f) Sixteen (16) counties having at least one (1) organization possessing an exemption acknowledgment are: Ballard; Bath; Caldwell; Carter; Crittenden; Edmonson; Hancock; Hart; Larue; McLean; Menifee; Monroe; Nicholas; Owen; Wayne; and Webster.

**A MAP SHOWING THIS BREAKDOWN IS SHOWN ON PAGE 17.**



<b>JEFFERSON</b>	<b>202,382,117.35</b>
Boyd	32,673,304.05
Kenton	30,424,745.24
Simpson	28,146,819.50
Fayette	24,184,659.69
Whitley	22,650,879.89



<b>JEFFERSON</b>	<b>2,024,937</b>
Simpson	347,081
Kenton	207,007
Boyd	202,007
Whitley	188,508
Laurel	153,323

## B. COMPARISON TO OTHER STATES

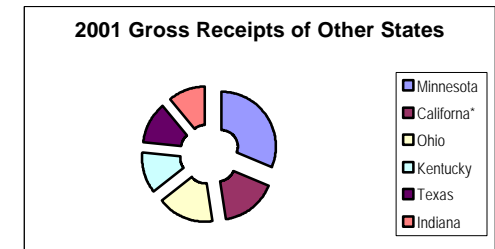
Kentucky has consistently ranked within the top six (6) states in gross receipts (handle) in charitable gaming. The other five (5) states are Minnesota, California,\* Ohio, Texas, and Indiana. Next in line is New York. Minnesota is far and away the leader in charitable gaming with almost one and a half (1 1/2) billion dollars wagered each year. California and Ohio wagered almost \$800 million, Kentucky and Texas wagered almost \$600 million, and Indiana and New York wagered over \$500 million in 2000. *Figures for 2001 are not yet available.*

Of the other five (5) top grossing states and the five (5) surrounding states, four (4) are regulated from the tax/or revenue departments or the attorney general; three (3) are regulated by an agency that also regulates other forms of gambling; one (1) has no state regulation; two (2) have agencies devoted only to charitable gaming; and one (1) has no charitable gaming. Therefore, Kentucky is one (1) of only three (3) states in the nation that has an agency devoted to charitable gaming regulation. It has the lowest fee in the nation but one of the best regulatory systems and strongest enforcement divisions in the industry. It continues to be a national leader in this regard.

## C. HISTORY IN KENTUCKY

In 1992 the Kentucky Constitution was amended to allow for charitable gaming. Statutes (KRS 238, *et seq.*) regulating charitable gaming were passed in 1994. Major revisions were made in 1996, 1998, and 2000. The legislative intent of KRS 238 embodies a belief that charitable gaming is an important method of raising funds for legitimate charitable purposes. The statutes establish standards for the conduct of charitable gaming which ensure honesty and integrity and provide for a means of accounting for all monies generated through the conduct of charitable gaming. One of the main goals of the statute is the prevention of the

\* Because it is locally regulated, the numbers for California are difficult to obtain and are estimates. In 1999 California had \$798,900,000.00. It is presumed that the number would be approximately the same for 2000.



Minnesota	1,477,198,000
California*	798,900,000
Ohio	787,591,478
Kentucky	584,414,168
Texas	581,761,553
Indiana	521,539,286

commercialization of charitable gaming and the prevention of the diversion of funds from legitimate charitable purposes.

The regulation of charitable gaming was originally given to a Division in the Justice Cabinet. The Division was reorganized and made into a Department in 1998. It was then transferred to the Public Protection and Regulation Cabinet where it remains. The Department of Charitable Gaming licenses charitable organizations, charitable gaming facilities, distributors, and manufacturers; collects fees; and ensures compliance with the laws and regulations by conducting inspections, audits, and investigations.

The Department currently has a staff of fifty-two (52) which includes licensing, accounting, compliance, audit, investigation, legal, and executive staff. Kentucky's General Fund does not support the Department of Charitable Gaming. The Department is funded by the licensing fee paid by organizations, facilities, distributors, and manufacturers, and the quarterly fee paid by each licensed charitable organization of 0.4% of their gross receipts.

Originally, the charitable gaming fee was set at five-tenths of one percent (0.5%) of the gross receipts. At that time, the Department was a division in the Justice Cabinet and had a staff of twenty-eight (28), consisting of licensing clerks, inspectors, accountants, and auditors. The mission of the division was increased in 1998 when the Governor reorganized it into a Department and placed it in the Public Protection and Regulation Cabinet. This reorganization created the Division of Enforcement within the Department. The reorganization and creation of a complete new division increased the agency's personnel complement to fifty-five (55) positions. Immediately prior to the Governor's reorganization, the Legislature also amended KRS 238.570 to reduce the fee to four-tenths (.04%).

Although charitable gaming has been an on-going activity in Kentucky since at least the last half of the twentieth century, the current statute and the regulatory agency it created are only eight (8) years old. Public policy makers have, since 1994, continuously reevaluated the direction and scope of regulation in the charitable gaming industry, primarily in response to evolution in the industry itself, as well as in recognition of the overall proliferation in the

### 2001 Gaming Handle



### BREAKDOWN OF RECEIPTS 'BY GAME'

Bingo	116,778,107.97
Pulltabs	475,720,044.74
Raffles	5,370,954.50
Specials	8,912,032.08
Non-Cash Prize Wheels	267,739.00

number of non-profit organizations that necessarily must raise funds and may often use charitable gaming to do so. To that extent, the Department of Charitable Gaming and the charitable gaming regulatory program remain a work in progress. In charting a course for public policy in this area, the challenge remains to strike an appropriate balance between defining and implementing the Department's mission and adjusting a budgetary funding mechanism that assures the delivery of quality services. The Department expects to work in partnership with the makers of public policy to achieve that common goal.

## II. TYPES OF LICENSEES

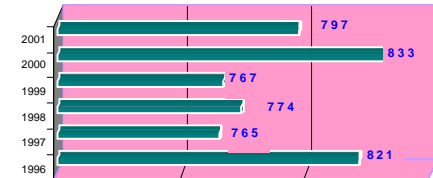
### A. CHARITABLE ORGANIZATIONS

#### 1. Requirements

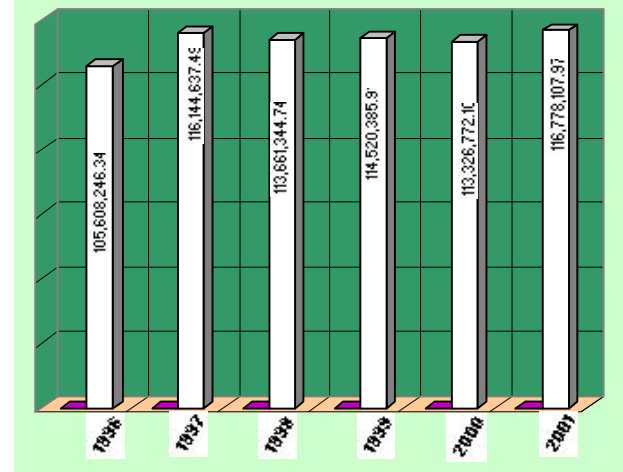
A charitable organization is a non-profit entity organized for charitable, religious, educational, literary, civic, fraternal, or patriotic purposes. A charitable gaming license permits a charitable organization to conduct bingo, sell pull-tabs, hold raffles, and non-cash prize wheels. A Special License may be obtained to conduct a charity fundraising event (fairs and festivals) or hold a special limited charity fundraising event (casino night). At the end of 2001, there were seven hundred ninety-seven (797) licensed charities. This number has remained fairly constant since 1995.

In order to obtain a license, the charitable organization must be actively engaged in charitable activities and must have been established and continuously operating within the state for charitable purposes for three (3) years. The organization is also required to demonstrate that it has maintained an office or place of business or operation for one (1) year in the county in which the charitable gaming is to be conducted. Licensed charitable organizations are required to submit Quarterly Reports covering each calendar quarter and pay a fee based on their receipts.

**Charitable Gaming Licenses  
Issued**



**Bingo Receipts**



All the people who work the game for the charity must be volunteers and may not be compensated for working in charitable gaming. No one can be a paid employee. It is also illegal for the players to “tip” the workers. While the Chairperson has to be a member of the charitable organization, the remaining workers do not have to be members.

## 2. Games

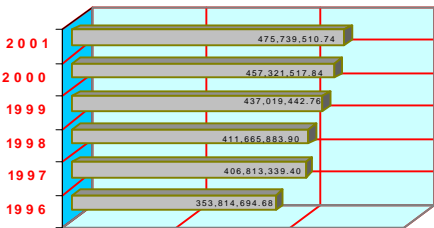
**Bingo** is limited to the conduct of two (2) five (5) hour bingo sessions per week with a maximum limit of five (5) consecutive hours per session. Prizes, both cash and non-cash, including door prizes, may not exceed \$5,000 per session. Of the charities licensed at the end of the year, two hundred ninety-nine (299) ran (2) bingo sessions per week and two hundred seventeen (217) ran one bingo session per week. The remaining two hundred eighty-one (281), either conducted a raffle, sold pull-tabs or had charity fundraising events only.

**Pull-tabs**, also referred to as “charity game tickets,” “Bankers,” “instants,” “rip-offs,” and “tips,” may be sold only at the address of the location designated on the license to conduct charitable gaming unless the organization possesses a charity fund-raising event license or a special limited charitable gaming license for off-site locations. No prize for an individual charity game ticket shall exceed \$599 in value, not including the value of cumulative or carryover prizes awarded in games using seal cards. Cumulative or carry-over prizes in games utilizing seal cards shall not exceed \$2,400.

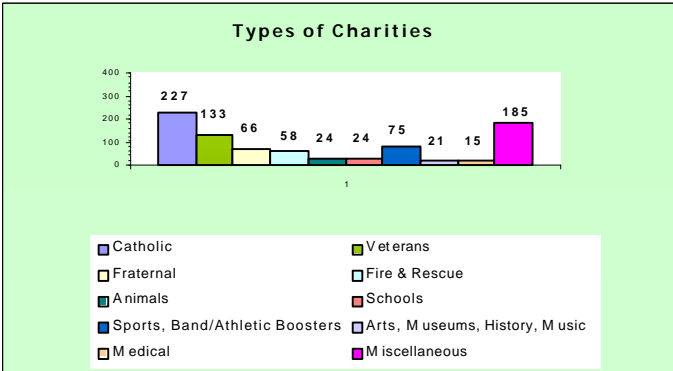
A **raffle** is a game of chance in which a participant is required to purchase a ticket for a chance to win a prize, with the winner to be determined by a random drawing. A licensed charitable organization may conduct an unlimited number of raffles per year. The raffles may be of unlimited duration, and there is no limit on prize amounts.

## 3. Types of Charities

Pulltab Receipts



Types of Charities



Charitable gaming licensees include churches; schools; band and athletic boosters; community sports programs; veterans; volunteer fire and rescue departments; animal rights groups; groups that support the arts, history, or museums; and fraternal and civic groups like the Optimists, Ruritans, Jaycees, Kiwanis, Rotary, Elks, Moose, Lions, Eagles, and Police.

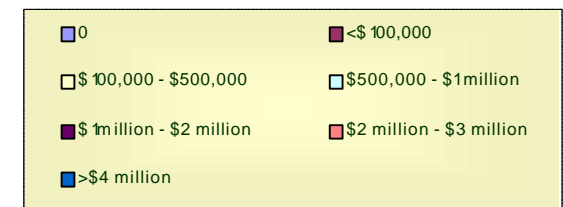
The single largest block of licensees are the Catholic charities, either churches, schools, or men's groups. This accounts for approximately one-third (1/3) of the licensees. The next largest group of gaming licensees is those associated with the military. Together these two (2) groups, Catholics and Veterans, account for approximately one-half (1/2) of the licensees. Other significant categories of licensees are volunteer fire departments, school boosters groups, and arts funding.

#### 4. How Much Do the Charities Make

Of the eight hundred thirty-two (832) charities that reported in 2001:

- a) fifty-two (52) had no gross receipts;
- b) two hundred-twenty (220) made less than \$100,000;
  - seven (7) had less than \$1,000 in gross receipts;
  - fifty-one (51) made between \$1,000 and \$10,000;
  - one hundred and eight (108) made between \$10,000 and \$50,000;
  - fifty-four (54) made between \$50,000 and \$100,000;
- c) one hundred seventy-one (171) made between \$100,000 and \$500,000;
  - sixty-three (63) made between \$100,000 and \$200,000;
  - forty-three (43) made between \$200,000 and \$300,000;
  - thirty-one (31) made between \$300,000 and \$400,000;
  - thirty-four (34) made between \$400,000 and \$500,000;

**How Much Do Charities Make?**



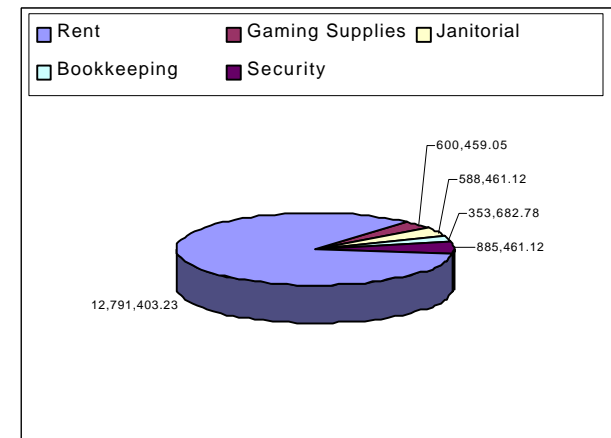
- d) one hundred-thirty (130) made between \$500,00 and \$1 million;  
thirty-five (35) made between \$500,00 and \$600,000;  
twenty-five (25) made between \$600,00 and \$700,000;  
twenty-four (24) made between \$700,000 and \$800,000;  
twenty-one (21) made between \$800,000 and \$900,000;  
twenty-five (25) made between \$900,000 and \$1 million;
- e) one hundred eighty-three (183) made between \$1 million and \$2 million;
- f) sixty-nine (69) made between \$2 million and \$3 million;
- g) six (6) made between \$3 million and \$4 million;
- h) two (2) made over \$4 million;

Therefore, factoring out the charities that reported no gross receipts, three hundred ninety-one (391) charities had receipts less than one million (\$1 million) and three hundred and ninety (390) charities had receipts greater than one million (\$1 million). The average gross receipts per charity was \$776,923.08.

## 5. Expenses

The total expenses statewide were almost forty million dollars (\$39,943,854.38). Of that total, almost thirteen million (\$12,791,403.23) was facility rent. The average facility made \$170,552.04 strictly from the rental of the facility. Rent accounts for 32% of the expenses the charities paid.

The charities paid distributors over nineteen million dollars (\$19,359,180.83) for gaming supplies, i.e., bingo paper, pull-tabs, and prizes, and over four million dollars (\$4,058,722.16) for bingo equipment including flash-boards and monitors, and card-minding devices. The total supply and equipment expense statewide was over twenty-three million





dollars (\$23,417,902.99). The average distributor made over one half million dollars on Kentucky charities (\$600,459.05). This accounts for 58% of the expenses the charities pay. Together the facilities and distributors alone take up 90% of the expense dollar.

The remaining expenses include: utilities, insurance, advertising, janitorial, bookkeeping, security, trade organization dues, and other. Statewide the charities paid \$885,288.35 for security, \$588,461.12 for janitorial, and \$353,682.78 for bookkeeping for a total of \$1,827,432.25.

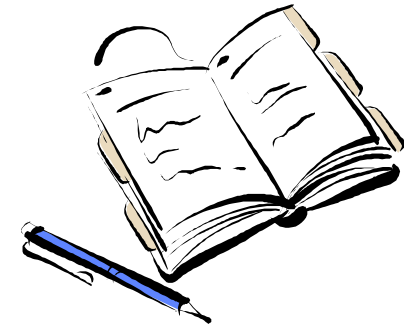
## 6. The 40% Requirement

KRS 238.536(1) requires that “[t]he net receipts from charitable gaming retained by a charitable organization for the previous calendar year, provided the charitable organization was licensed at the start of the calendar year, shall be equal to or greater than forty percent (40%) of the adjusted gross receipts of the charitable organization for the same period.” This means that expenses can be no more than 60% of the money left after pay-outs (adjusted gross receipts) or net receipts must be at least 40% of adjusted gross receipts. It is calculated as shown below:

	Gross Receipts (money taken at the door each night)
-	<u>Pay-outs (prizes awarded during the game each night)</u>
	Adjusted Gross Receipts
-	<u>Expenses (rent, supplies, etc. paid each month)</u>
	Net Receipts for the year

Net Receipts divided by Adjusted Gross Receipts must be at least 40%.

All receipts must be spent exclusively for purposes consistent with the reason the organization obtained federal tax-exempt status. KRS 238.536(1).



### Example of 40% calculation:

	Gross	1,000,000.00
-	<u>Payouts</u>	<u>850,000.00</u>
	AGR	150,000.00
-	<u>Expenses</u>	<u>70,000.00</u>
	Net Receipts	80,000.00
	<u>Net Receipts</u>	<u>80,000.00 = 53%</u>
	AGR	150,000.00

## B. EXEMPTION ACKNOWLEDGEMENT

Any charitable organization that meets the qualifications for licensure but does not expect to have annual gross receipts totaling more than \$25,000 per year for bingo, raffle(s), and charity fundraising event(s) may be exempt from being licensed provided the organization first notifies the Department of its intent to engage in charitable gaming and applies for an Exemption Acknowledgement. Organizations possessing an Exemption Acknowledgment are not required to file quarterly financial reports with the Department and are exempt from paying the fee on their adjusted gross receipts.

The Department issued four hundred ninety-eight (498) exempt acknowledgements in 2001, an increase of thirty-five (35) from 2000. This number has continued to grow over the last three (3) years.

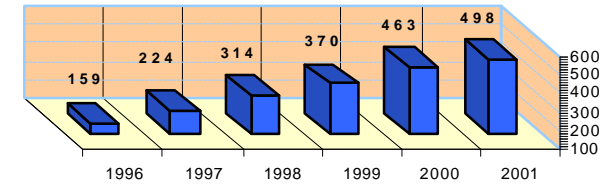
## C. SPECIAL LICENSES

Each licensed charitable organization is eligible to apply for up to four (4) special licenses per year so that they might hold special events, i.e., fairs, festivals, or casino nights. Up to two (2) of the four (4) allowable special licenses may be used for special limited charity fundraising events (Casino nights).

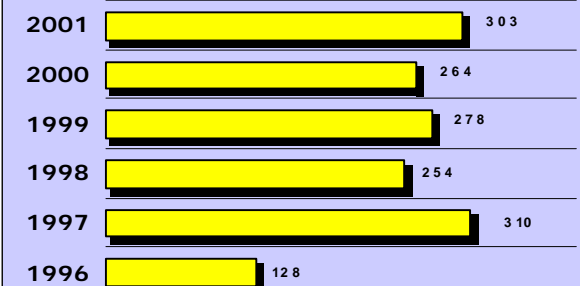
### 1. Charity Fund Raising Event License

A charity fundraising event license is available for organizations conducting charitable gaming at fairs, carnivals, bazaars, or festivals. While special limited charitable games (casino-type games) and wagering on pre-recorded horse races may be conducted at a charity fundraising event, the predominant number of games of chance to be conducted must be festival type games. A charity fundraising event license may be valid for up to seventy-two (72) hours.

**Exemption Acknowledgements Issued**



**Charity Fundraising Event Licenses Issued**



## 2. Special Limited Fundraising Event License

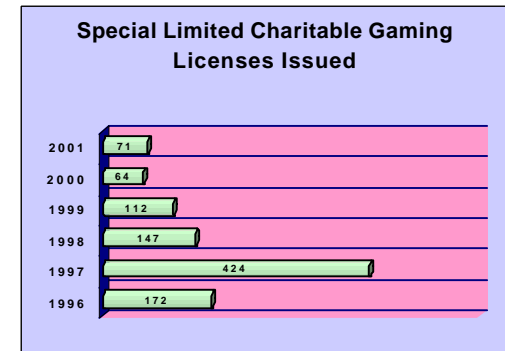
“Special limited charitable games” are defined as roulette; blackjack; poker; keno; money wheel; baccarat; pusher-type games and any dice game where the player competes against the house. In order to conduct these casino-type games, a licensed charitable organization must obtain a Special Limited Charity Fundraising Event license. The Special Limited Charity Fundraising Event License is issued for a period of time not to exceed six (6) consecutive hours. Two (2) of the four (4) special licenses permitted during an organization’s license year may be issued for a special limited charity fundraising event.

In 2001, the Department issued three hundred and three (303) charity fundraising event licenses (fairs, festivals, etc.), and seventy-one (71) special limited charity fundraising event licenses (Casino nights). These numbers have also remained fairly constant.

### D. FACILITY

A facility is a person, or other entity, including a licensed charitable organization, who owns or is a lessee of premises which are leased or otherwise made available to two (2) or more licensed charitable organizations for the conduct of charitable gaming. The Department also licenses facilities.

A licensed facility may furnish space for up to eighteen (18) bingo sessions per week if it is located in a city of the first class, a city of the second class, an urban county or charter county government, or in a county containing a city of the first or second class. A licensed facility at any other location is restricted to eight (8) bingo sessions per week. Each licensed facility may furnish space for up to seven (7) special limited charitable gaming events per year, with no more than one (1) event per week. Facilities in the following counties are eligible to host eighteen (18) sessions: Daviess, Fayette, Franklin, Hardin, Jefferson, Kenton, Madison, McCracken, and Warren.

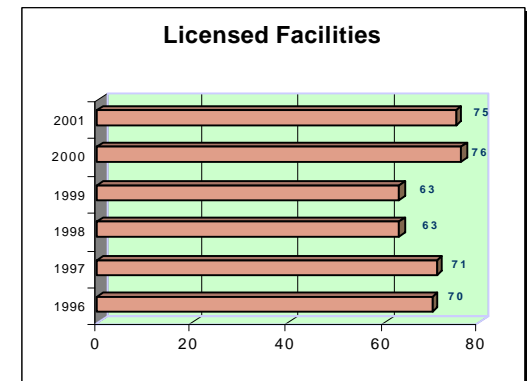


**There are two (2) types of facility license:**

**Eighteen (18) session license - \$2,500**

**Eight (8) session license - \$1,250**

*Of the seven-hundred ninety-seven (797) charities licensed at the end of the year, two hundred seventy six (276) game at a licensed facility and five hundred twenty-one (521) do not.*



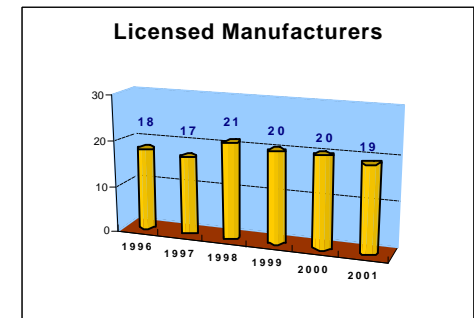
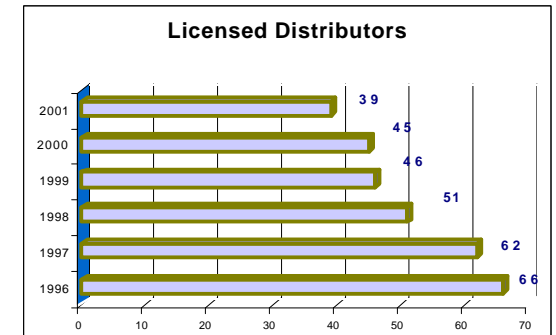
In 2001 the Department licensed a total of seventy-five (75) facilities. This number has risen slightly over the years but is down one (1) from last year. This number does not include organizations which game at their own facility or facilities which do not have more than two (2) organizations gaming.

### E. DISTRIBUTORS

A distributor is a person who sells, markets, leases, or otherwise furnishes charitable gaming supplies or equipment, or both, to charitable organizations for use in the conduct of charitable gaming. They are also licensed by the Department. A licensed distributor is prohibited from selling charitable gaming supplies and equipment to any person not licensed as a charitable organization or as a licensed distributor. All distributors must purchase their inventory of charitable gaming supplies and equipment from licensed manufacturers or other licensed distributors. The licensing fee for a distributor is now \$1,000. The Department ended 2001 with a total of thirty-nine (39) licensed distributors. This number has steadily decreased over the years. Of the licensed distributors, approximately one-half (1/2) are in-state businesses and the other one-half (1/2) are out of state businesses.

### F. MANUFACTURERS

A manufacturer is a person who assembles from raw materials or subparts any charitable gaming equipment or supplies used in the conduct of charitable gaming, including a person who converts, modifies, and adds to or removes parts from charitable gaming equipment and supplies. They also must be licensed. A licensed manufacturer is prohibited from selling charitable gaming supplies and equipment to any person not licensed as a distributor in the state. The license fee associated with an annual manufacturer license is now \$1,000. In 2001 the Department licensed nineteen (19) manufacturers, all of whom are out of state businesses. This number has remained fairly steady over the years.



### III. ORGANIZATION OF THE DEPARTMENT

The Department is composed of the Commissioner's Office; the Office of General Counsel; and two (2) divisions, the Division of Licensing and Compliance and the Division of Enforcement.

#### A. COMMISSIONER'S OFFICE

The Commissioner's Office is responsible for all aspects of administration of the Department including budget, personnel, computer technology, and management of the physical plant. This office also acts as the cabinet and legislative liaison.

#### B. OFFICE OF GENERAL COUNSEL

The Office of General Counsel prosecutes administrative actions, answers questions from the licensed entities and the general public about charitable gaming, and advises Department personnel.

#### C. DIVISION OF LICENSING & COMPLIANCE

The Division of Licensing and Compliance has three (3) branches: Licensing, Compliance, and Accounting.

##### 1. Licensing Branch

Licensing personnel review the license applications from all entities; send deficiency letters if required; refer the applications for criminal history checks; review exempt status of organizations; issue licenses; and process any changes requested in the licenses.

2001 was a very exciting and challenging year for the Licensing Branch. Their newly designed charitable gaming database has proven to be a valuable tool for the Branch in better

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[www.dcg.state.ky.us](http://www.dcg.state.ky.us)

834	Organization license applications processed
797	licenses issued
696	deficiency letters written
37	denial letters written
524	day/time changes processed
4,906	officer/chairperson changes made
75	facility applications processed
39	distributor licenses processed
19	manufacturer licenses processed
17,254	calls to the Department's toll free telephone number answered

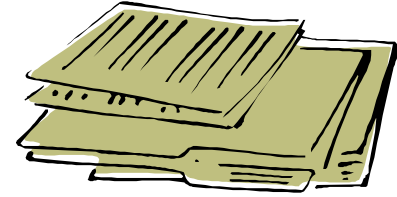
serving the licensees. During this period the Branch lost one of its three (3) licensing reviewers, creating a tremendous workload for the remaining staff. However, this challenge was met with little interruption of service to the licensees. With the addition of another reviewer in April, the staff was better able to accommodate the needs of the gaming community. The Licensing Staff is looking forward to 2002 with great expectations of being able to improve upon the quality of service already being provided.

## 2. Accounting Branch

This Branch reviews and reconciles the quarterly report forms filed by the organizations, processes the fees for all licensees, and calculates the retention rate of the organizations based on their quarterly reports at the conclusion of the calendar year. With only two (2) staff positions in accounting, the Branch is always busy. This year was its most eventful, with the training of a new employee who was hired just before the year began. The new employee rapidly became proficient and has added greatly to the efficiency of the Branch. The Branch's biggest accomplishment was designing a new training program for quarterly reporting, which is offered the first Tuesday of every month in the office. The staff look forward to finding new ways to better serve the licensees and help make charitable gaming reporting a friendlier task.

## 3. Compliance Branch

A total of twelve (12) Charitable Gaming Compliance Officers are regionally located throughout the state. The Compliance Officers conduct on-site inspections of licensed charitable gaming activity to assure adherence to applicable charitable gaming statutes and administrative regulations. In addition, the Compliance Officers investigate complaints and upon request, provide training to new licensees. Training is provided at the Department the first Tuesday of every month.

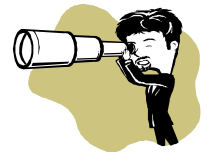


**Over 3,000 quarterly reports  
processed**



The inspections are broken down as follows:

2,061	Charitable Organizations
93	Facility Inspections
26	Special Limited Events
122	Charity Fundraising Events/Special Limited Events



During 2001 the Compliance Branch conducted a total of two thousand, three hundred and one (2,301) inspections, almost three hundred (300) more than last year. It also investigated ninety-one (91) of the total one hundred thirty eight (138) complaints received by the Department. The Branch's biggest accomplishment was the development and implementation of a training program. The Compliance Branch also began assisting the Licensing Branch in doing background checks of applicants for licensure. The biggest challenge the Compliance Branch faces is dealing with the constant turnover of chairpersons and officers of licensed organizations.

#### **D. DIVISION OF ENFORCEMENT**

The Department has strong enforcement powers which include examining charitable gaming supplies and equipment and conducting in-depth audits and investigations. The Division of Enforcement has two (2) branches, Audit and Investigations.

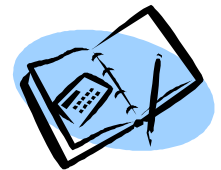
##### **1. Audit Branch**

The Audit Branch has a total of nine (9) auditors regionally located throughout the state and is headed by a certified public accountant. The Auditors conduct in-depth audits of charitable gaming activities to ensure that high standards of accounting, record keeping and reporting of charitable gaming receipts are met. The results of such audits may lead to corrective measures on the part of a licensee and/or administrative action against the charitable organization's license.

The Audit Branch's biggest accomplishment has been to continually perform audits in sometimes difficult and stressful circumstances, while working with organizations and personnel who often do not appreciate either their presence or their efforts. The auditors often work with records that are inadequate in accuracy and manner of preparation and must adjust their methods and procedure to adapt to changing circumstances. They do this while maintaining a professional demeanor and attitude toward their work, always keeping in mind



**The Audit Branch opened a total of fifty (50) audits, and closed forty-one (41) audits including the first facility audit. They also conducted six (6) mandatory training sessions.**



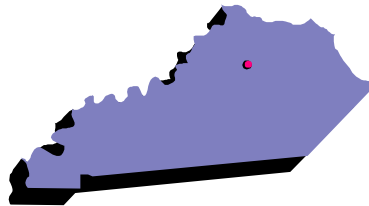
that they are representatives of the Commonwealth and their purpose is to assist the charities in gaming. The biggest challenge faced by the Branch is performing audits in an industry which does not yet have standardized record-keeping requirements. Therefore, the first challenge the auditor faces is to determine how a particular charity keeps its gaming records and then to conduct the audit accordingly.

## 2. Investigations Branch

There are five (5) investigators regionally located throughout the state. They investigate complaints with allegations of criminal wrongdoing. These criminal allegations include theft, forgery, criminal possession of a forged instrument, promoting gambling, possession of a gambling device, participating in a continuing criminal enterprise, tax evasion and money laundering. The results of these investigations could result in administrative action or civil and/or criminal action. In several of these cases the Department is cooperating with the federal prosecutor and federal law enforcement agencies, the Kentucky State Police and local law enforcement.

## IV. COUNTY BY COUNTY BREAKDOWN

The following pages include charts of the gross receipts, gross pay-outs, expenses, and attendance broken down by county. There is also a color chart of the gaming counties by gross receipts.



**The Investigations Branch opened twenty-four (24) cases and closed ten (10).**

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**Eight (8) persons were indicted for diversion of charitable gaming funds.**

